Fairfax County Supplemental Retirement System

A Pension Trust Fund of Fairfax County Virginia

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2000

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FAIRFAX COUNTY
V I R G I N I A

BOARD OF TRUSTEES
SUPPLEMENTAL RETIREMENT SYSTEM
10680 Main Street, Suite 280
Fairfax, Virginia 22030-3812

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November 30, 2000

Dear Members of the Board of Trustees:

I am pleased to submit to you the annual report of the Fairfax County Supplemental Retirement System ("System") for the fiscal year ended June 30, 2000. This annual report is provided as an aid to understanding the structure and evaluating the status of the System. The System's management is responsible for the accuracy of financial information contained herein.

The annual report for fiscal year 2000 consists of five sections: (1) an Introductory Section that contains this transmittal letter along with the organization structure and review of plan provisions; (2) a Financial Section that contains the opinion of the independent auditors, the financial statements of the System and required supplementary information; (3) an Investment Section that contains investment results; (4) the Actuarial Section that includes the independent actuary's certification letter, a summary of the results of the actuarial valuation, and actuarial procedures and assumptions; and (5) the Statistical Section that contains information regarding the System membership.

History

The Fairfax County Supplemental Retirement System was established on July 1, 1955, as a cost-sharing multiple-employer public employee retirement system providing defined benefit pension plan coverage for full-time and certain part-time Fairfax County and Fairfax County Public Schools employees who are not covered by the Fairfax County Police Officers Retirement System, the Fairfax County Uniformed Retirement System, the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC), or the Virginia Retirement System (VRS). There were 13,044 active members and 3,757 retirees participating in the System as of June 30, 2000.

Benefit Provisions

The benefit provisions of the System are established by County Ordinance. The System provides normal service retirement and early service retirement benefits for members who attain age or service requirements. Coverage for service-connected disability benefits is immediate upon membership in the System. Ordinary (non-service related) disability benefits are provided after the attainment of five years of service. Members are vested after five years of service and are eligible for the benefits at the early or normal service retirement date.

Capital Markets, Economic Conditions and Outlook

Fiscal year 2000 was another year of positive returns in the equity markets generally, but at rates that were below those of the extraordinary returns of the prior five years. The year was also characterized by significant volatility in the markets. A review of the capital markets and economic conditions during the year and the outlook for fiscal year 2001 is included as a foreword to the Investment Section of this report.

The System's investments earned a return of 5.9% for the year, net of investment management fees. Fiscal year 2000 was the first year since 1994 that the market rate of return did not exceed the actuarial assumption of 7.5%.

After accounting for all cash flows, including contributions, expenses, and benefit payments, the market value of the System's assets increased 5.0%, from $1,748.4 million on June 30, 1999 to $1,836.4 million on June 30, 2000.

Major Initiatives

The turn of the calendar to the year 2000 (Y2K) occurred without incident. This was accomplished as a result of months of significant effort by staff in planning for the new year. All internal software and hardware was reviewed and tested well in advance. A new retiree payroll system was developed, thoroughly tested, and installed. In addition to ensuring successful operation of internal systems after the turn of the year, staff closely followed the efforts of our custodian and external investment managers to be sure that our major service providers were taking the necessary steps to avoid any major impact from the conversion to the year 2000.

Financial Highlights

Internal and Budgetary Controls

The System's management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2000, adequately safeguard the System's assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the budget for the System is annually presented to and approved by the Board of Trustees and the County's Board of Supervisors.

Additions

The primary sources of additions for the System include member and employer contributions as well as net investment income. Total contributions and net investment income for fiscal year 2000 totaled $149.3 million, a decrease of $31.8 million versus fiscal year 1999.

Table 1. Contributions and Investment Income

	FY 2000 (millions)	FY 1999 (millions)	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Employer Contributions	$27.1	$24.1	$3.0	12.4%
Member Contributions	20.6	19.4	1.2	6.2%
Net Investment Income	101.6	137.6	(36.0)	(26.2)%
	$149.3	$181.1	$(31.8)	(17.6)%

Contributions

Contributions from Fairfax County increased 12.4% over the prior year and produced 18.2% of total additions. The increase in employer contributions was attributable to an increase in payroll; the employer contribution rate in FY 2000 remained at 6.04% of payroll, the same rate established for FY 1999. Member contributions increased 6.2% over the prior year, also due to the higher payroll base, contributing 13.8% to total additions.

Investments

The net investment income portion of total additions decreased by $36.0 million or 26.2% in fiscal year 2000. Dividend and interest income increased by $6.5 million or 11.4%. Realized and unrealized gains on investments decreased $43.4 million or 50.5%. Investment expenses declined by $1.0 million or 17.2%. The market value of net assets increased to $1,836.4 million from $1,748.4 million.

Deductions

The deductions from the System include the payment of retiree and beneficiary payments, the refund of employee contributions to former members and administrative expenses. Deductions for fiscal year 2000 totaled $61.3, an increase of $5.5 million or 9.9% over the prior fiscal year.

Table 2. Deductions by Type

	FY 2000 (millions)	FY 1999 (millions)	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Benefits	$55.5	$50.8	$4.7	9.3%
Refunds	5.1	4.4	0.7	15.9%
Administrative Expenses	0.7	0.6	0.1	16.7%
	$61.3	$55.8	$5.5	9.9%

The increase in benefit payments to $55.5 million was due both to an increase in the number of retirees and growth in the average benefit payment. The number of retirees and beneficiaries increased to 3,757 at June 30, 2000 from 3,591 a year earlier. Retirees also received a 2.6% cost-of-living increase effective July 1, 1999.

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 1999 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits increased from 99.2% to 103.8%. The Actuarial Section contains further information on the results of the July 1, 1999 valuation.

Investment Policies and Strategies

The Board of Trustees has an adopted Statement of Investment Objectives and Policy. This Statement establishes the investment goals, guidelines, constraints and performance standards the Board of Trustees will use when exercising its fiduciary duties to manage the investment assets of the System. The Board operates in conformity with the standard of care required in making investments as stated in the Code of Virginia §51.1-124.30.C.

The Board receives quarterly reporting from staff to ensure compliance with its stated objectives and policy. Staff also monitors the performance of the System and its investment managers; rate of return information is included in the Investment Section.

Securities of the System except for mutual funds and a short-term investment fund are held by State Street Bank and Trust Company, as agent, in the System's name. State Street Boston Corporation, the parent company, carries Financial Institution Bond insurance coverage including a Computer Crime Policy. An additional Excess Securities policy covers all risk of physical loss to securities.

Other Information

Independent Audit and Actuarial Certifications

An independent auditors' report and certifications from the actuary are included in this report.

Acknowledgements

The annual report of the Supplemental Retirement System was prepared by the System's staff under the leadership of the Board of Trustees. I would like to thank the staff who have worked hard throughout the year to ensure the successful operation of the System. This report is intended to provide complete and reliable information for determining the financial status of the System. It is being submitted to the Board of Supervisors and other interested parties.

Respectfully submitted,

Laurnz A. Swartz

Laurnz A. Swartz
Executive Director

BOARD OF TRUSTEES

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Laurnz A. Swartz
Executive Director

Thomas H. Weaver
Senior Investment Manager

Don A. McCorry
Retirement Administrator

Professional Services

Actuary

Milliman & Robertson, Inc.
Actuaries
Vienna, VA

Auditor

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Certified Public Accountants
Washington, DC

Investment Managers

Barclays Global Investors
San Francisco, CA

The Clifton Group
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Cohen & Steers Capital Management, Inc.
New York, NY

DSI International Management, Inc.
Norwalk, CT

JP Morgan Investment Management, Inc.
New York, NY

Lazard Asset Management
New York, NY

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Los Angeles, CA

Schroder Capital Management
International, Inc.
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Thomson Horstman & Bryant, Inc.
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Bethesda, MD

Wanger Asset Management, L.P.
Chicago, IL

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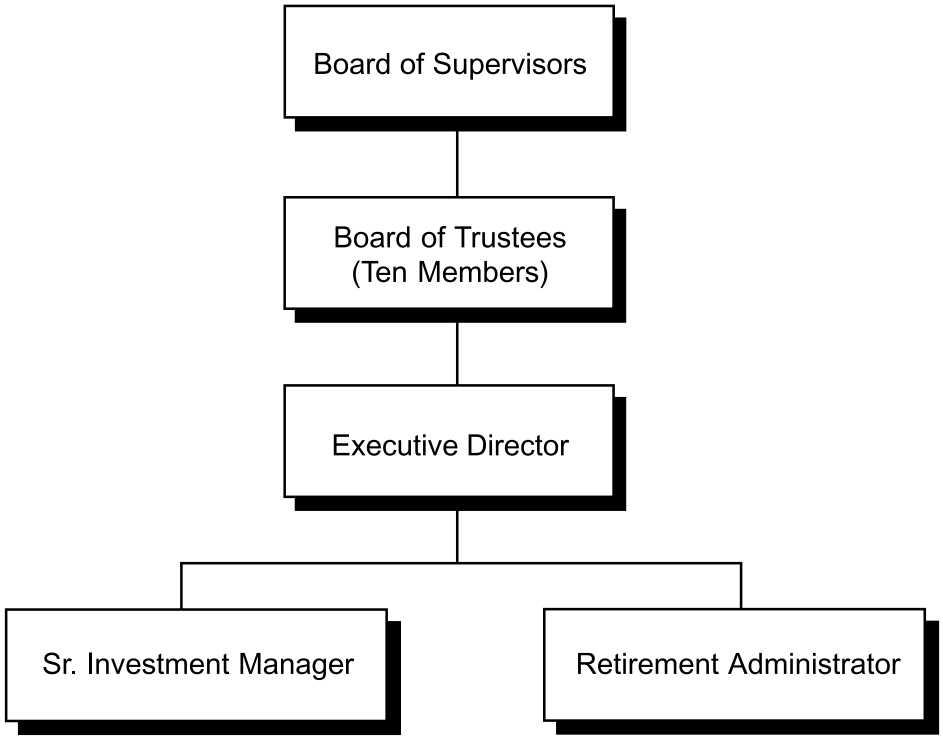
State Street Bank and Trust Company
Boston, MA

ORGANIZATIONAL CHART



SUMMARY OF PLAN PROVISIONS

Membership in the Fairfax County Supplemental Retirement System includes most County employees working at least 20 hours per week as well as part-time and support staff employees from the Fairfax County Public Schools. The System consists of two Plans, Plan A and Plan B which have slightly different employee contribution rates and slightly different benefits. In all other respects, the plans are identical. The employee has the option to enroll in either plan within 30 days of employment. This choice is irrevocable. Employees who make no election default to retirement Plan A.

The general provisions of the Supplemental Retirement System are as follows:

Plan A

Contribution Rate:

4% of base salary up to the maximum Social Security wage base plus 5.333% of base salary over the wage base.

Benefit:

1.8% of average final compensation (highest consecutive three years) up to the Social Security Breakpoint times creditable service plus 2% of average final compensation which exceeds the Social Security Breakpoint times creditable service. The total benefit is then increased by 3%. The Social Security Breakpoint is an average of Social Security wage bases for the last 35 years before a member reaches age 65.

In addition, if the retiree is under age 62 at the time of normal service retirement, a Pre-Social Security Benefit is payable at the rate of 1% of average final compensation up to the Social Security Breakpoint times creditable service. For retirements after June 30, 2000, and for those already retired who did not attain age 62 by June 30, 2000 the supplemental benefit will be payable until the member reaches the age of eligibility for unreduced Social Security benefits. The total benefit is then increased by 3%.

Plan B

Contribution Rate:

5.333% of base salary.

Benefit:

2% of average final compensation (highest consecutive three years) times creditable service. The total benefit is then increased by 3%.

In addition, if the retiree is under age 62 at the time of normal service retirement, a Pre-Social Security Benefit is payable at the rate of 1% of average final compensation up to the Social Security Breakpoint times creditable service. For retirements after June 30, 2000, and for those already retired who did not attain age 62 by June 30, 2000, the supplemental benefit will be payable until the member reaches the age of eligibility for unreduced Social Security benefits. The total benefit is then increased by 3%.

Both Plans

Normal Retirement:

is either age 65 with at least 5 years of service or at least age 50 when the member's age plus creditable service (including sick leave) totals 80 or more.

SUMMARY OF PLAN PROVISIONS
(Continued)

Early Retirement:
is at least age 50 when the member's age plus creditable service total 75 or more. Reduction factors are applied to the basic formula for early retirement and no Pre-Social Security Benefit is payable.

Deferred Vested Retirement:
is available for vested members (vesting is at 5 years of creditable service) who leave their contributions in the System when they terminate. These members are entitled to their normal retirement benefit based on service with the County at age 65 or a reduced benefit earlier when they reach age 50 and age plus years of creditable service equal 75. This benefit is then increased by 3%.

Service-Connected Disability Retirement:
is available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are 66²/₃% of their average final compensation.

Ordinary Disability Retirement:
is available for vested members who become disabled due to an injury or illness that is not job-related. Benefits are 2% of average final compensation (highest consecutive three years) times creditable service. The total benefit is then increased by 3%.

Death Benefits:
Before Retirement — If the member is vested and the spouse is the beneficiary, the spouse may elect to receive 50% of the normal retirement benefit earned as of the date of the member's death. This benefit ceases if the spouse remarries before age 60. If this benefit is not elected, a refund of the member's contributions and interest is payable to the named beneficiary.

After Retirement — Refund of any of the member's contributions and interest not already paid in benefits will be payable to the named beneficiary(ies) unless the member has elected the irrevocable Joint and Last Survivor Option which provides a benefit to the member's spouse for life. At retirement, the member may choose to have his spouse receive 50%, 66²/₃%, 75% or 100% of the member's reduced annuity upon the member's death. The member's annuity is reduced by a percentage based on the difference in age between the member and his or her spouse. If the spouse pre-deceases the member, the annuity is restored to what it would have been if this option had not been elected.

Service-Connected Death Benefit — A $10,000 lump-sum payment is made to the beneficiary if the member's death is due to a job-related illness or injury.

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For a copy of the
KPMG Auditor's letter,
please contact the
Retirement Agency
at 703-279-8200

STATEMENTS OF PLAN NET ASSETS

as of June 30, 2000 and 1999

Assets	2000	1999
Equity in County's pooled cash and temporary investments	$5,066,490	$481,614
Accrued interest and dividends receivable	6,031,141	6,714,925
Investments, at fair value		
U.S. Government obligations	52,909,097	46,558,416
Asset-backed securities	200,710,434	273,905,803
Municipal bonds	-	311,942
Corporate bonds	50,669,661	138,128,461
Common and preferred stock	591,453,679	823,581,777
Mutual funds	841,314,808	398,485,648
Short-term investments	90,026,298	62,227,598
Cash collateral received under securities lending agreements	112,721,058	119,688,811
Total investments	1,939,805,035	1,862,888,456
Total assets	1,950,902,666	1,870,084,995
Liabilities		
Payable for collateral received under securities lending agreements	112,721,058	119,688,811
Accounts payable and accrued expenses	1,758,764	1,986,981
Total liabilities	114,479,822	121,675,792
Net assets held in trust for pension benefits	**$1,836,422,844**	**$1,748,409,203**

(A schedule of funding progress is presented on page 19.)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2000 and 1999

Additions	2000	1999
Contributions		
Employer	$27,133,595	$24,143,832
Plan members	20,561,280	19,413,441
Total contributions	47,694,875	43,557,273
Investment income		
From investment activities		
Net appreciation in fair value of investments	42,512,475	85,869,585
Interest	28,095,150	34,781,508
Dividends	35,451,132	22,261,081
Other	53,029	36,801
Total income from investment activities	106,111,786	142,948,975
Less investment activity expenses		
Management fees	4,166,767	5,284,549
Custodial fees	235,147	226,178
Consulting	76,000	38,659
Allocated administrative expense	374,107	310,747
Total investment activity expenses	4,852,021	5,860,133
Net income from investment activities	101,259,765	137,088,842
From securities lending activities		
Securities lending income	6,680,241	6,654,215
Securities lending expenses		
Borrower rebates	6,081,572	5,876,201
Management fees	209,545	272,320
Total securities lending expenses	6,291,117	6,148,521
Net income from securities lending activities	389,124	505,694
Total net investment income	101,648,889	137,594,536
Total additions	149,343,764	181,151,809
Deductions		
Annuity benefits	49,250,201	44,877,010
Disability benefits	4,833,786	4,623,497
Survivor benefits	1,368,127	1,253,677
Refunds	5,123,873	4,404,218
Administrative expense	754,136	621,495
Total deductions	61,330,123	55,779,897
Net increase	88,013,641	125,371,912
Net assets held in trust for pension benefits		
Beginning of fiscal year	1,748,409,203	1,623,037,291
End of fiscal year	**$1,836,422,844**	**$1,748,409,203**

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2000 and 1999

The Fairfax County Supplemental Retirement System ("System" or "plan") is considered part of the County of Fairfax, Virginia's ("County") financial reporting entity and is included in the County's general purpose financial statements as a pension trust fund. The accompanying financial statements present only the operations of the System in conformity with accounting principles generally accepted in the United States of America. They are not intended to present fairly the financial position and results of operations of the entire County.

A. Summary of Significant Accounting Policies

Basis of Accounting. The System's financial statements have been prepared under the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the plan. The cost of administering the plan is paid by the System.

Method Used to Value Investments. Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The System records investment purchases and sales as of trade date. These transactions are not finalized until settlement date, which occurs approximately three business days after the trade date. The amounts of trade receivables and payables are not separately disclosed due to immateriality. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's pooled cash and temporary investments. The System maintains its cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 2000 and 1999, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or was insured through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

B. Plan Description and Contribution Information

Membership. At July 1, 1999, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	3,590
Terminated plan members entitled to but not yet receiving benefits	499
Active plan members	12,772
Total	**16,861**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Plan Description. The System is a cost-sharing multiple-employer defined benefit pension plan which only covers employees of the County and its component units. The plan covers full-time and certain part-time County, Public Schools, Economic Development Authority and Fairfax County Redevelopment and Housing Authority employees who are not covered by other County or Commonwealth of Virginia retirement plans. Benefit provisions are established and may be amended by County ordinances. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 65 with five years of service, or (b) attain the age of 50 with age plus years of service being greater than or equal to 80. The normal retirement benefit is calculated using average final compensation (i.e., the highest 78 consecutive two week pay periods or the highest 36 consecutive monthly pay periods) and years (or partial years) of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. The benefit for early retirement is actuarially reduced and payable at early termination.

Annual cost-of-living adjustments are provided to retirees and beneficiaries equal to the lesser of 4 percent or the percentage increase in the Consumer Price Index for the Washington Consolidated Metropolitan Statistical Area.

Contributions. The contribution requirements of System members are established and may be amended by County ordinances. Members may elect to join Plan A or Plan B. Plan A requires member contributions of 4 percent of compensation up to the Social Security wage base and 5.33 percent of compensation in excess of the wage base. Plan B requires member contributions of 5.33 percent of compensation. The County is required to contribute at an actuarially determined rate; the rate for the years ended June 30, 2000 and 1999 was 6.04 percent of annual covered payroll.

C. Investments

The authority to establish the System is set forth in Section 51.1-800 *Code of Virginia* (Code). Section 51.1-803 of the Code authorizes the System to purchase investments *with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims. Such investments shall be diversified so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.*

The System does not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represent 5 percent or more of net assets available for benefits. All investments, except for the mutual funds, short-term investment fund, and short-term collateral investment pool, are held by an unaffiliated custodian in the name of the System. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board.

Derivative financial instruments. As permitted by the Code described above, the System invests in derivative instruments on a limited basis in accordance with Board of Trustees' policy. Derivative instruments are financial contracts whose value depends on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards and options or swap contracts. In addition, some traditional securities can have derivative-like characteristics such as structured notes in which the return may be linked to one or more indexes, and asset-backed securities such as collateralized mortgage obligations which are sensitive to changes in interest rates and

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

prepayments. Futures, forwards, options and swaps are generally not recorded on the financial statements, whereas structured notes and asset-backed investments generally are reported.

Futures contracts are contracts to deliver or receive financial instruments at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges and require initial margin collateral in the form of cash or marketable securities. The net change in the value of futures contracts is settled daily with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Therefore the amount the System is at risk due to nonperformance of counterparties to futures contracts is minimal. The System purchased futures contracts for the opportunity to gain market exposure to the S&P 500 and the US treasury indexes in a more efficient way and at lower transaction costs. Market risks arise from adverse changes in market prices and interest rates, the same risks that arise from holding any security. During fiscal 2000, the System held S&P Index futures, 5 and 10 year US Treasury Note futures and 30 year US Treasury Bond futures. At June 30, 2000, the current notional value of, or number of units specified in, the System's futures contracts is $45,883,141. The System did not directly hold any futures contracts at June 30, 1999.

The System also purchases foreign currency and forward currency contracts to effect settlement of securities trades in currencies other than US dollars and to protect the base currency (US dollars) from fluctuations in the exchange rates of foreign currencies. The credit risk of the forward currency contracts lies with the potential nonperformance of the counterparty to the transaction. The maximum credit risk is usually equal to any unrealized profit on the contracts. Market risk in foreign currency contracts is related to adverse movements in currency exchange rates. During the year ended June 30, 2000 the System had sold foreign currency and forward currency contracts with a market value of $155,930,506 and had purchased foreign currency or forward currency contracts with a market value of $142,352,648. During fiscal 1999 the System sold foreign currency and forward currency contracts with a market value of $172,281,360 and had purchased foreign currency and forward currency contracts with a market value of $179,391,842.

In the area of on-financial statement instruments with derivative-like characteristics, the System invests in various asset-backed securities such as collateralized mortgage obligations (CMO), principal only (PO) strips and interest only (IO) strips . These securities were purchased to increase earnings, provide exposure to portions of the mortgage market or to control duration within the portfolio. The credit risk of these investments results from the creditworthiness of the counterparties to the contracts. There is an additional credit risk related to the creditworthiness of the related consumers or mortgagees. The market risk of these securities is dependent on changes in interest rates and the level of the underlying prepayments, i.e., when the underlying principal and interest are repaid by the mortgagors.

In addition the System has indirect exposure to market and credit risk through its ownership interests in certain mutual funds which hold futures contracts, options, CMO and IO securities and call warrants. The notional value of the System's prorated holdings in futures contracts and options held by the mutual funds is $288,683 at June 30, 2000 and $8,348,049 at June 30, 1999.

At June 30, 2000 and 1999 the System held $14,524,194 or 0.8% of the fair value of investments, and $17,226,640 or 1.0% of the fair value of investments in on-financial statement instruments with derivative-like characteristics.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Securities Lending. Board of Trustees policies permit the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the plan's domestic securities for collateral of 102 percent and international securities for collateral of 105 percent. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's collective collateral investment pool, which at year end has a weighted average duration of 74 days and a weighted average maturity of 485 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool.

The System did not impose any restrictions during the period on the amounts of loans the lending agent made on its behalf, and the agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

Securities on loan for securities, or irrevocable letters of credit collateral are classified in the following schedule of investments according to the category of the collateral received. Securities on loan at year-end for cash collateral are unclassified as the cash collateral is invested in a collective collateral investment pool. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System.

As of June 30, 2000 and 1999, the market value of securities on loan were $93,637,115 and $116,842,603, respectively. Cash received as collateral and the related liabilities of $112,721,058 as of June 30, 2000 and $119,688,811 as of June 30, 1999 are shown on the Statements of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default.

Categorization. The System's investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty or its trust department or agent, but not in the System's name. All of the System's investments meet the criteria of Category 1, except investments in mutual funds, a short-term investment fund, a short-term collateral investment pool and those securities on loan for which the cash collateral is invested in the collateral investment pool. These investments by their nature are not required to be categorized.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

A schedule of investments as of June 30, 2000 and 1999 follows:	**2000**	**1999**
Categorized investments		
Short-term investments		
Corporate bonds	$44,000,278	$12,610,642
Asset-backed securities	35,131,136	38,073,601
U.S. Government bonds	10,894,884	11,543,355
Total short-term investments	90,026,298	62,227,598
U.S. Government obligations	25,466,793	21,379,912
Asset-backed securities	200,710,434	273,905,803
Municipal bonds	-	311,942
Corporate bonds	48,748,599	130,321,653
Common and preferred stock		
Not on securities loan	527,179,930	739,724,486
On securities loan for securities collateral	4,760,071	-
On securities loan for letter of credit collateral	-	1,595,565
Total categorized investments	896,892,125	1,229,466,959
Uncategorized investments		
Mutual fund	841,314,808	398,485,648
Securities lending short-term collateral investment pool	112,721,058	119,688,811
Investments held by broker dealers under securities loans with cash collateral:		
U.S. Government obligations	27,442,304	25,178,504
Corporate bonds	1,921,062	7,806,808
Common and preferred stock	59,513,678	82,261,726
Total uncategorized investments	1,042,912,910	633,421,497
Total investments	**$1,939,805,035**	**$1,862,888,456**

D. Income Taxes

The Internal Revenue Service issued a determination letter on March 29, 1995, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

REQUIRED SUPPLEMENTARY INFORMATION

Six-year historical trend information about the System is presented herewith as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/94	$796,157,626	$837,636,088	$41,478,462	95.05%	$325,682,644	12.74%
7/1/95	889,160,271	930,819,185	41,658,914	95.52%	348,403,016	11.96%
7/1/96	1,116,662,361	1,142,455,206	25,792,845	97.74%	363,290,025	7.10%
7/1/97	1,231,382,638	1,241,813,772	10,431,134	99.16%	365,583,822	2.85%
7/1/98	1,324,132,857	1,334,468,657	10,335,800	99.23%	381,220,936	2.71%
7/1/99	1,523,310,967	1,467,043,776	(56,267,191)	103.84%	399,732,318	(14.08%)

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1995	$26,896,714	100%
1996	28,663,583	100%
1997	29,941,315	100%
1998	30,955,140	100%
1999	24,143,832	100%
2000	27,133,595	100%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	July 1, 1999
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Weighted average of 15.7 years
Asset valuation method	3-Year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.3%-5.4%
*Includes inflation at	4.0%
Cost-of-living adjustments	3.0%

The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Trustees based on the most recent review of the System's experience, completed in 1996.

The rate of employer contributions to the plan is composed of the normal cost, amortization of the unfunded actuarial liability and an allowance for administrative expenses. The normal cost is a level percent of pay cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial ability. The allowance for administrative expenses is based upon the plan's actual administrative expenses.

Investment gains have resulted in a negative unfunded liability as of the valuation date. The actuarial computation determined an employer contribution rate of 4.67%. Subsequent to the valuation, plan benefits were enhanced. The additional benefit to normal service retirement known as the Pre-62 benefit will now be paid to retirees who have not reached age 62 as of June 30, 2000 until the retiree is eligible for full unreduced social security benefits. Additionally, effective February 7, 2000 members re-employed in retirement eligible positions who had elected a refund of contributions for their prior service, may decide to buy back their prior service at any point during their career. Previously, a decision to buy back service had to be made within one year of their re-employment. The impact of investment gains and the plan enhancements described here result in the adoption of an employer contribution rate of 6.29% for the fiscal year ending June 30, 2001, an increase of 0.25% from the fiscal year 2000 rate of 6.04%.

CAPITAL MARKETS, ECONOMIC CONDITIONS AND OUTLOOK

Fiscal-Year 2000 Review

Fiscal-year 2000, ending June 30, proved to be another positive year for most equity markets worldwide, albeit at a much reduced rate than the 20+% average annualized returns achieved during the previous five years. The S&P 500 Index advanced 7.2%, marking the twelfth consecutive year of positive returns for the Index. Fixed income markets improved moderately over the previous year, returning 4.6% compared with 3.1%, as measured by the benchmark Lehman Brothers Aggregate Bond Index. US equity returns, for the first time in 6 years, failed to be the best performer among the major asset classes that we benchmark. The S&P 500 Index return of 7.2% paled in comparison to the results achieved by the MSCI EAFE (international developed country equities) Index — 17.2%, the Russell 2000 (domestic small-cap equities) Index — 14.3%, and the MSCI Emerging Markets Free (international developing country equities) Index — 9.5%.

Not unlike 1999, fiscal 2000 proved to be a very bumpy year as capital markets see-sawed between the positive influences of strong economic growth and the dampening effects of a determined Federal Reserve raising short-term interest rates to forestall inflationary pressures. Fiscal 2000 started off on the right foot as the S&P 500 Index surged on the anticipation of record corporate earnings growth. However, stocks floundered two weeks into the new fiscal year as surging commodity prices and higher interest rates took the equity markets down over 6%. Market leadership was concentrated in the technology-laden NASDAQ stocks, such as semiconductor and internet-related issues. The Federal Reserve raised the federal funds rate 1/4% on June 30, and again on the 24th of August, maintaining a tightening bias. The US equity markets ended the first half of fiscal 2000 (December, 1999) on a strong note, rebounding sharply from the weakness seen in the first fiscal quarter to hit a new high. The US economy continued to expand, consumer confidence rose to a 30-year high, and unemployment fell to a 29-year low of 4.1%. Prompted by higher oil prices and a shrinking labor market, the Federal Open Market Committee raised the federal funds rate by another 1/4% in November. Technology-related and telecommunications stocks again led the markets during this period; with the NASDAQ Index returning almost 50%, compared to about 15% for the S&P 500 Index. Moving through the third fiscal quarter, US markets experienced a wild ride. The quarter was marked by unprecedented volatility, with significant price moves on a daily basis. During the quarter the Dow Jones Industrial Average recorded 30 moves of 100 points or more (15 of which were more than 200 points). Momentum-oriented trends accelerated and investors focused on a small subset of TMT (telecommunications, media, and technology) stocks that displayed the highest growth in revenues and price strength, despite exhibiting negligible positive earnings. During March, higher oil prices, sky-high Internet valuations, and inflationary concerns caused investors to take profits in TMT stocks and rotate from “new economy” to “old economy” stocks. The US equity markets declined sharply in March, and the downward trend continued into the fourth fiscal quarter. Dampening investors’ enthusiasm further was a 1/2% increase by the Fed, growing concern over the creditworthiness of e-commerce companies, a court ruling to break up Microsoft into two separate companies, and the failure of WorldCom and Sprint to gain regulatory approval to merge. The S&P 500 Index declined 3.0% during the year’s final fiscal quarter, while the NASDAQ Index fell a sharper 13%.

The public real estate market (REITs), despite ending the year on an uptrend, suffered its third year of mediocre returns. Notwithstanding rising fundamentals, including higher rents and earnings, REITs were invariably negatively viewed as either “small-cap” plays, “value” plays, or on the wrong side of upward trending interest rates. Worthy of note, however, was the passage of the REIT Modernization Act (12/17/99), which allows REITs to own 100% of the stock of a taxable REIT subsidiary. The NAREIT Equity REIT Index returned 3.0% for the year, which barely brought the 3-year total return into positive territory at 0.4%

International equity markets experienced a sharp positive bounce in fiscal 2000. The MSCI EAFE Index rose 17.2%, driven by the anticipation of an economic rebound in Japan, and continued technological expansion in Europe. Emerging markets enjoyed a more normalized return pattern for fiscal 2000, capturing a 9.5% gain, and benefiting from lower interest rates and positive economic growth.

Fixed income markets experienced moderate gains during fiscal 2000 as the Lehman Brothers Aggregate Bond Index advanced 4.6% in total return and international bond returns rose 3.0%. Although the benchmark 30-year Treasury Bond Index began the year at a yield of 5.98% and concluded the year at 5.90%, there was much turbulence along the way. Yields rose through the first half of the fiscal year, peaking at 6.75% in January, reflecting the further Fed tightening, higher oil prices, the strong economy, and Y2K fears. Liquidity declined significantly as the calendar year-end approached, as no dealer or investor wanted to be holding excess inventory. This caused spreads to widen substantially. Passing midyear, fixed income markets shrugged off the Y2K non-event, and rates steadily declined. The rate decline was driven in part by technical factors relating to the Treasury's announced treasury bond buyback and reduced issuance resulting from the budget surplus. By fiscal year-end, bonds were stabilizing at just below the 6.0% level, largely due to the release of weak economic data that was interpreted by some to indicate that the Federal Reserve's $1^{3}/_{4}$% rate increases over the previous 12 months were finally slowing the economy.

System

Within this volatile capital market environment the System's investments advanced 5.9% for the fiscal year 2000, net of investment management fees. This achievement was below the 17.2%, 20.5% and 9.0% returns of the prior three years, and modestly below the System's actuarial assumption of a 7.5% net rate of return. The market value of the System's net assets increased 5.0%, from $1,748.4 million on June 30, 1999, to $1,836.4 million on June 30, 2000. At year-end 2000, the System's investments were allocated as follows: Domestic and international equities – 53.9%; Fixed income securities – 35.1%; Publicly-traded equity REITs – 10.7%; and Cash-equivalents — 0.3%.

Outlook

Looking forward to fiscal year 2001, the Federal Reserve is expected to move to the sidelines as the economy slows to more normalized levels. The tightening of monetary policy and the attendant contraction in money growth that began in mid-1999 should be sufficient to produce a GDP-rate slowdown from the 4.8% and 5.6% rates of the last two quarters of fiscal 2000 to a more reasonable 3.0% GDP growth rate in the first quarter of 2001. We expect this consumer-led slowdown to persist through most of fiscal 2001. Inflation continues to remain muted by booming productivity and a strengthening dollar, although high oil prices continue to put a "tax" on the economy. Despite an overall economic slowdown, many see a continuation of double-digit increases in real business spending and exports, which could support good earnings levels for the export-sensitive capital goods and technology sectors.

We expect that the trend of increasing volatility in capital markets will likely continue through 2001. The bull market, which began 10 years ago in October 1990, has pushed the S&P 500 Index up 372%, or 19.4% annualized. We believe this performance is unsustainable, and, barring a recession, would expect to see equity markets return to a more normal 8% - 12% range.

The System's investments continue to be well positioned and diversified. Any short-run downturn in the bond and equity markets would not have a material effect on the funded status of the System.

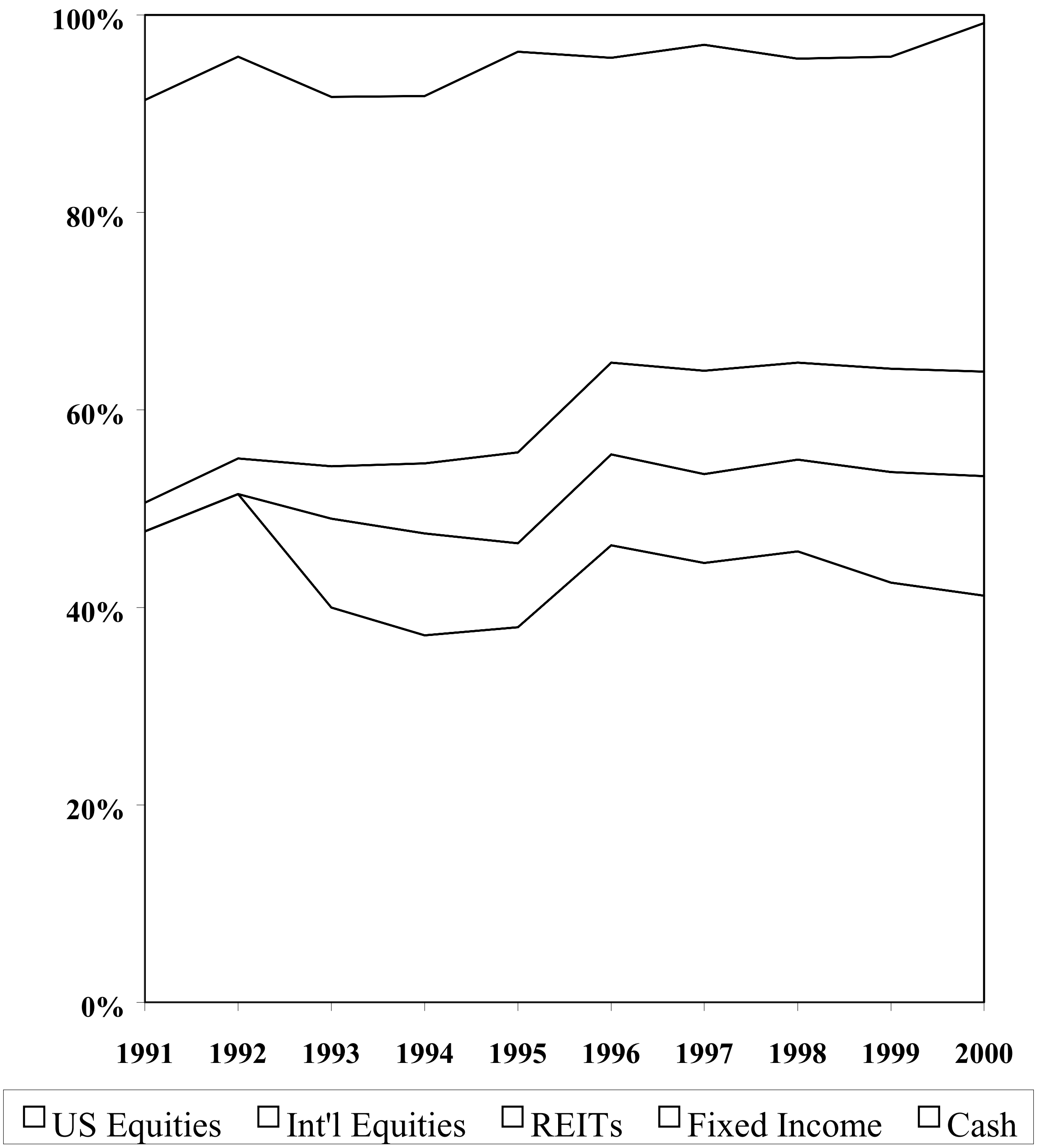
ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

June 30, 2000

Asset Class Manager	Investment Style	Total Assets	% of Total Assets
Domestic Equities			
Barclays Global*	Large-Cap Growth Index	$228,969,873	12.5%
Barclays Global*	Large- Cap Value Index	116,419,602	6.3%
Robert E. Torray	Active Large-Cap Value	142,460,269	7.8%
DSI	Enhanced Large-Cap Index	57,752,697	3.1%
Clifton Group	Index Futures Overlay	45,430,625	2.5%
JP Morgan US Smartindex	Enhanced Large-Cap Index	57,298,665	3.1%
Wanger Asset Management (Acorn Fund)*	Active Small-Cap Core	80,794,409	4.4%
Thomson, Horstmann & Bryant	Active Small-Cap Value	37,504,828	2.0%
International Equities			
Lazard Asset Mgt.	Active Developed Markets	171,588,825	9.3%
Schroder Capital*	Active Emerging Markets	54,025,546	2.9%
Real Estate			
Cohen & Steers	Active Equity REITs	197,123,824	10.7%
Fixed Income			
Barclays Global*	Domestic Core Index	227,207,803	12.4%
J.P. Morgan	Active Global Core	234,682,392	12.8%
Payden & Rygel	Active Global Core	181,566,055	9.9%
Cash			
County Treasurer	Active Short Term	5,119,537	0.3%
Payden & Rygel Tailored STIF	Active Short Term	236,658	0.0%
Total Assets**		**$1,838,181,608**	**100.0%**

** Pooled Funds*
*** Without Cash Collateral*

Asset Allocation
1991 - 2000



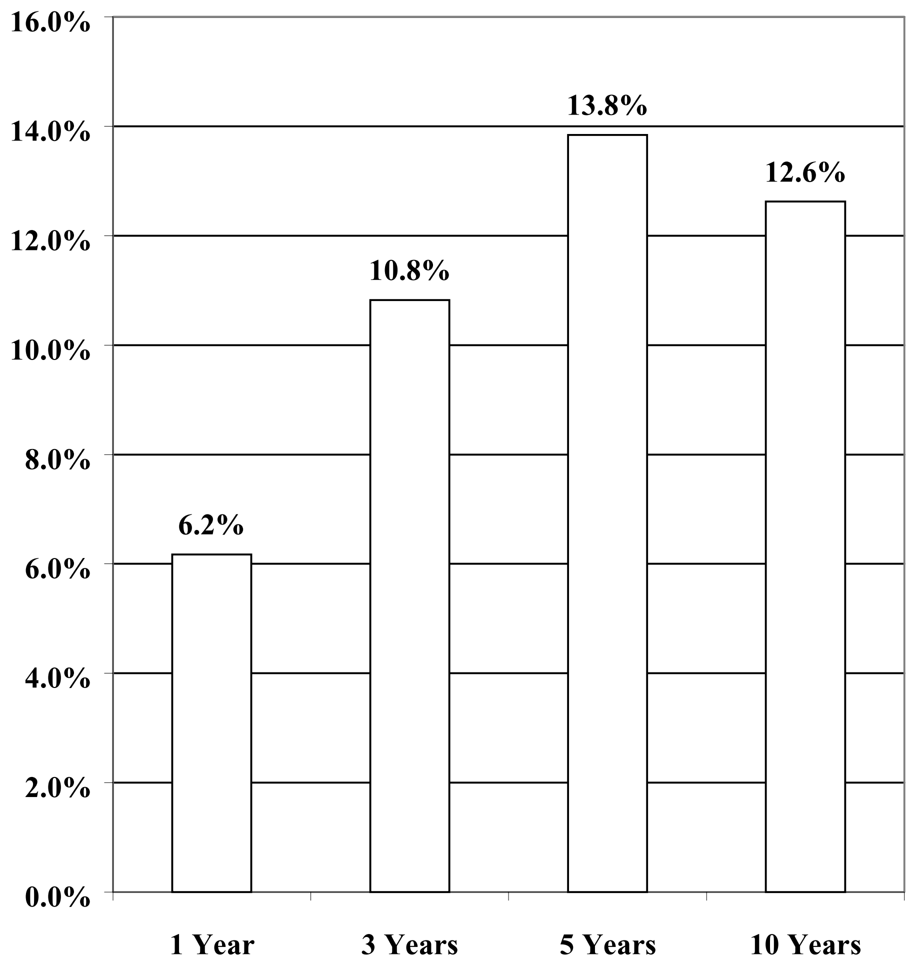
LIST OF LARGEST ASSETS HELD

June 30, 2000

Fifteen Largest Equity Holdings	Shares	Market Value
General Electric Co.	425,584	$ 22,555,962
Intel Corp	144,566	$ 19,326,673
Cisco System, Inc.	300,035	$ 19,070,932
Microsoft Corp.	227,554	$ 18,204,267
International Business Machines	118,068	$ 12,935,838
Equity Office Properties Trust	468,800	$ 12,921,300
Vornado Realty Trust	364,500	$ 12,666,375
Pfizer, Inc.	261,651	$ 12,559,207
Avalon Bay Communities, Inc.	284,400	$ 11,873,700
Wal Mart Stores, Inc.	193,556	$ 11,153,630
Abbott Labs	238,560	$ 10,630,820
Starwood Hotels & Resorts	324,800	$ 10,576,300
Johnson & Johnson	101,269	$ 10,316,794
Apartment Investment & Mgt. Co.	236,800	$ 10,241,600
Walt Disney Co.	254,181	$ 9,865,371

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Market Value
Federal National Mortgage Assn. Single Family July 30-year TBA	7.500%	July 31, 2030	$ 32,082,210
Federal Home Loan Mortgage Corp. Discount Note	6.000%	August 8, 2000	$ 31,680,178
United States Treasury Note	6.125%	December 31, 2001	$ 22,885,000
Federal National Mortgage Assn. Single Family August 30-year TBA	7.000%	August 31, 2030	$ 20,811,656
Federal Home Loan Mortgage Corp. Discount Note	6.000%	July 5, 2000	$ 19,982,083
United States Treasury Bond	6.250%	August 15, 2023	$ 19,168,816
Federal National Mortgage Assn. Single Family July 30-year TBA	7.000%	July 31, 2030	$ 16,868,692
Federal National Mortgage Assn. Single Family July 30-year TBA	8.000%	July 31, 2030	$ 11,548,530
Household Financial Corp.	6.520%	July 12, 2000	$ 10,000,000
Bear Stearns Cos., Inc.	6.520%	July 12, 2000	$ 9,936,611
United States Treasury Note	6.000%	August 15, 2009	$ 9,935,180
Asset Securitization Corp.	5.975%	September 11, 2000	$ 9,000,000
Government National Mortgage Assn. Single Family August 30-year TBA	7.500%	August 31, 2030	$ 8,830,491
Federal National Mortgage Assn. Single Family August 30-year TBA	6.500%	August 31, 2030	$ 8,765,250
UBS Financial Inc.	6.540%	August 7, 2000	$ 8,427,424

Compound Annual Return on Investment Portfolio



Returns are gross of expenses

FOREWORD TO THE ACTUARIAL SECTION

Valuation Comments

This report represents the results of the July 1, 1999 actuarial valuation of the Fairfax County Supplemental Retirement System. The primary purposes of performing the valuation are as follows:

- to determine the contributions to be paid to the Plan in Fiscal Year 2001
- to disclose asset and liability measures as of July 1, 1999
- to analyze and report on trends in the Plan's contributions, assets and liabilities over the past several years.

Since this report was released, the County Ordinance has been amended to extend the benefit supplements from age 62 to the first year of eligibility for unreduced Social Security retirement benefits. The effective date of this amendment is July 1, 2000. Had these improvements been in place on the July 1, 1999 valuation date, the actuarial liability would have been higher by $58 million.

The County contribution would have been higher by 1.62% of payroll, made up of an increase in the normal cost of 0.43% and an increase in the amortization of unfunded liability component of 1.19%. The County contribution to be made in Fiscal Year 2001 is the sum of this 1.62% of payroll and the 4.67% of payroll contribution rate as developed in the 1999 valuation, for a total of 6.29% of payroll.

MILLIMAN & ROBERTSON, INC.
Actuaries & Consultants
Internationally WOODROW MILLIMAN

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Telephone: 703/917-0143
Fax: 703/827-9266

June 28, 2000

Board of Trustees
Fairfax County Supplemental
Retirement System
10680 Main Street - Suite 280
Fairfax, VA 22030-3812

Dear Members of the Board:

At your request, we have performed our annual actuarial valuation of the Fairfax County Supplemental Retirement System as of July 1, 1999. The results of the valuation are contained in this report.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain level as a percent of payroll. In order to achieve this, a contribution rate has been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus level percent of payroll amortizations of each layer of the unfunded liability over a 15 year period. This funding objective is currently being realized.

Assumptions

The actuarial assumptions used in this valuation have been recommended by the actuary and adopted by the Board of Trustees based upon the most recent review of the System's experience completed in 1996. We believe the assumptions used, in the aggregate, represent our best estimate of future experience of the plan.

The assumptions and methods used in performing this valuation meet the parameters set for disclosure presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.*

Reliance on Others

In preparing our report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found the data to be reasonably consistent and comparable with data used in the prior valuation.

Albany, Atlanta, Boise, Boston, Chicago, Dallas, Denver, Hartford, Houston, Indianapolis, Irvine, Los Angeles, Milwaukee, Minneapolis, New York, Omaha, Philadelphia, Phoenix, Portland, ME, Portland, OR, St. Louis, Salt Lake City, San Diego, San Francisco, Seattle, Tampa, Washington, D.C., Bermuda, Tokyo
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Board of Trustees
Fairfax County Supplemental Retirement System
June 28, 2000
Page 2

Supporting Schedules

We were responsible for all supporting schedules to be found in the Actuarial Section.

We were responsible for all years of the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

Compliance with Code of Virginia §51.1-800

Code of Virginia §51.1-800 requires that the benefits provided a retiree at age 65 from a local retirement system equal or exceed two-thirds of the allowance to which the employee would be entitled under the provisions of the Virginia Retirement System (VRS). The Board of Trustees of the VRS is to determine whether a local system satisfies this condition, taking into account differences in member contributions between the local system and the VRS.

Although there is no formal procedure for making this comparison, we have compared the least valuable accrual rate under the Supplemental Plan to the most valuable accrual rate under the VRS, making adjustments for the fact that employee contributions are required in excess of the VRS 5% rate. The employer provided accruals rates do exceed $^2/_3$ of the employer provided accrual rates under the VRS plan.

I certify that, to the best of my knowledge and understanding, the Fairfax County Supplemental Retirement System satisfies the requirements of the Code of Virginia §51.1-800.

Certification

On the basis of the foregoing, we certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, Amplifying Opinions, and supporting Recommendations and Interpretations of the American Academy of Actuaries.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.

Fiona E. Liston

Fiona E. Liston, F.S.A.
Consulting Actuary

MILLIMAN & ROBERTSON, INC.

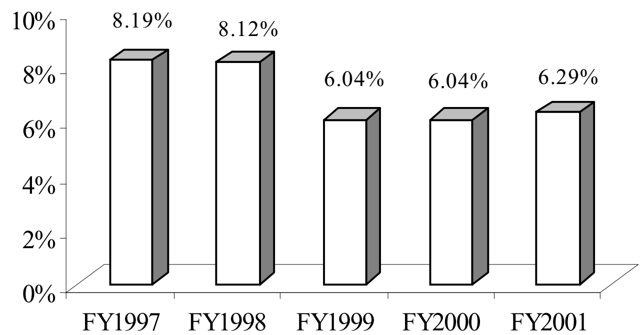
SUMMARY OF VALUATION RESULTS

Overview

This report presents the results of our July 1, 1999 actuarial valuation of the Fairfax County Supplemental Retirement System.

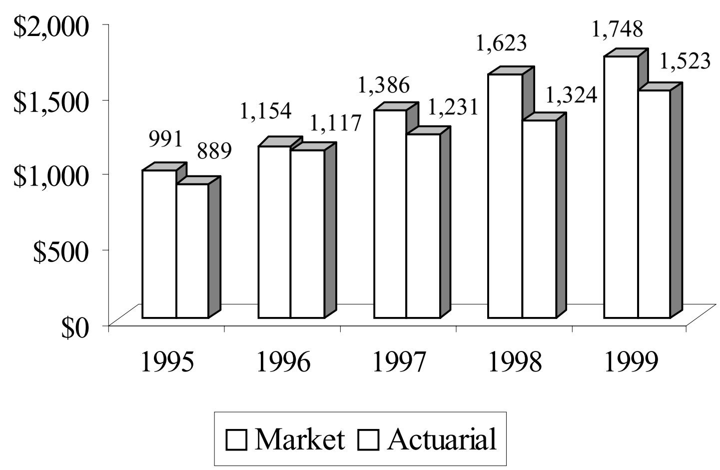
The major findings of the valuation are summarized in the following charts.

Employer Contribution Rates
(as % of Payroll)



The employer contribution rate for FY 2001 is equal to the 4.67% developed in this valuation report plus 1.62% to provide for the cost of plan improvements.

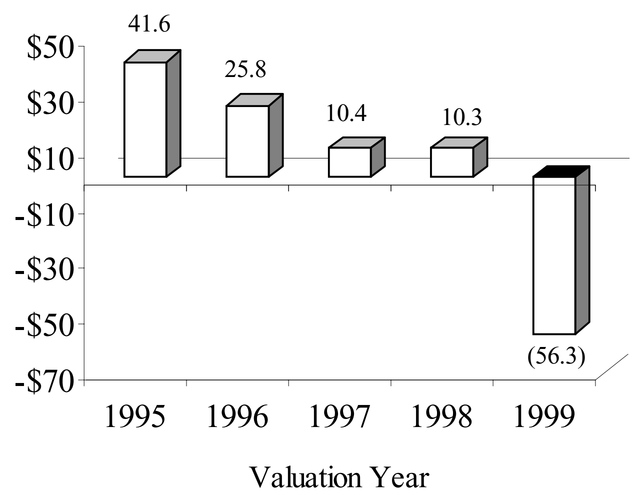
System Assets
(In Millions)



The rate of return on the market value of assets for fiscal 1999 was 8.51%, down from fiscal 1998's return of 17.20%. The System still has a large cushion against future possible adverse performance of $225 million.

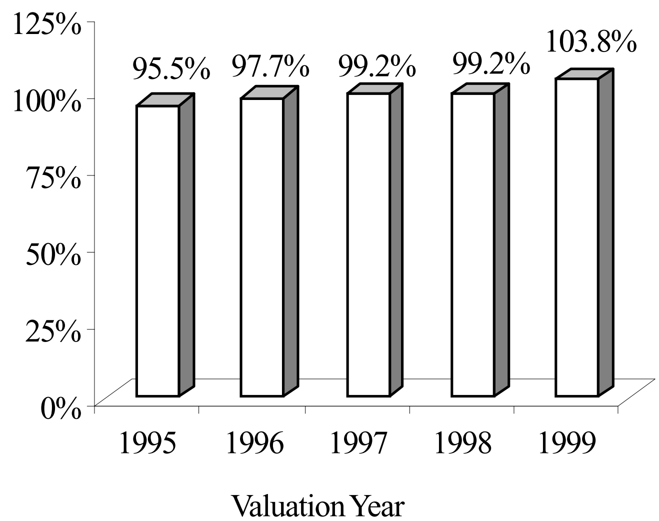
SUMMARY OF VALUATION RESULTS
(Continued)

Unfunded Actuarial Liability
(In Millions)



This is the first year that the Supplemental Retirement System has seen a negative unfunded actuarial liability.

Funding Ratio



This is the first year the actuarial assets covered all actuarial accrued liabilities.

SUMMARY OF VALUATION RESULTS
(Continued)

Summary of Results

The following table compares the principal results from the 1998 and 1999 valuations.

SUMMARY OF PRINCIPAL RESULTS

Participant Data	July 1, 1998	July 1, 1999	Percent Change
Number of:			
Active Members	12,511	12,772	+ 2.1%
Retired Members and Beneficiaries	2,842	3,051	+7.4%
Disabled Members	519	539	+3.9%
Vested Former Members	492	499	+1.4%
Annual Salaries of Active Members	$ 385,016,308	$ 411,226,331	+6.8%
Annual Benefits for Retired and Disabled Members, and Beneficiaries (Excluding Supplemental Benefits)	$ 41,723,758	$ 46,744,206	+12.0%

Assets and Liabilities	July 1, 1998	July 1, 1999	Percent Change
Total Actuarial Liability	$ 1,334,468,657	$ 1,467,043,766	+ 9.9%
Assets for Cost Purposes	$ 1,324,132,857	$ 1,523,310,967	+15.0%
Unfunded Actuarial Liability	$ 10,335,800	$(56,267,201)	-644.4%

Contribution Results *(as percent of payroll)*

Employer Normal Cost Rate	5.50%	5.50%
Unfunded Actuarial Liability Contribution	0.24	-1.13
Administrative Expenses	0.30	0.30
Total Employer Contribution	6.04%	4.67%

SUMMARY OF VALUATION RESULTS
(Continued)

Valuation Highlights

System Assets

As of July 1, 1999, the System had assets at market value of $1.7 billion, as compared to $1.6 billion as of July 1, 1998. The increase of $125 million was attributable to the following:

- an increase of $44 million due to employer and member contributions;
- a decrease of $56 million due to payment of System benefits and expenses;
- an increase of $137 million due to System investment experience (realized and unrealized).

When measured on an actuarial basis for contribution purposes (in order to smooth the peaks and valleys of market fluctuations), System assets were $1.5 billion as of July 1, 1999, up from $1.3 billion as of July 1, 1998. For valuation purposes, we capture the market value of assets at July 1 of each year. Overall, the rate of return on System assets was 8.5% on a market value basis, and 16.0% on an actuarial basis.

System Liabilities

Two types of liabilities are presented in this report; actuarial liabilities and the liability for benefits accrued to date. Actuarial liabilities are developed and used for ongoing funding purposes and include a portion of future anticipated pay increases and service credit. This measure is also used as the measurement of actuarial accrued liability required to be disclosed under Government Accounting Standards Board Statement No. 25.

The liability for benefits accrued to date measures the present value of all future System benefits based on service to date. In this report, we present a measure of the liability for benefits accrued which conforms with Statement No. 35 of the Financial Accounting Standards Board.

As of July 1, 1999, the System actuarial liabilities are $1,467 million, as compared to $1,334 million as of July 1, 1998. When measured against System assets (actuarial value) of $1,523 million, there are System unfunded actuarial liabilities of negative $56 million. This compares to $10 million of unfunded actuarial liabilities as of July 1, 1998.

Viewed another way, the ratio of assets to actuarial liabilities increased from 99.2% to 103.8%.

With respect to the liabilities for benefits accrued as of the valuation date, this valuation shows a liability under FASB rules of $1,086.8 million as compared to $978.1 million as of July 1, 1998.

Since these liabilities are based upon a current “snapshot” of members’ pay and service, the common approach is to compare this liability with the market (i.e., current or fair) value of System assets. This comparison as of July 1, 1999, shows that the ratio of System assets (market value) to liabilities accrued to date under FASB Statement 35 has decreased from 165.9% to 160.9%.

SUMMARY OF VALUATION RESULTS

(Continued)

System Contributions

Contributions to the System include a "normal cost rate" which is to cover the portion of projected liabilities on account of service of members during the year following the valuation date.

In addition, an unfunded actuarial liability contribution is made which, together with assets on hand, will fund the portion of projected liabilities on account of service rendered prior to the valuation date. Finally, a provision for System administrative expenses is made by adding 0.30% of member payroll to the total contribution.

The employer normal contribution is 5.50% of payroll. The current unfunded actuarial liability rate is -1.13% of payroll. Together with the administrative expense rate, this results in a total employer contribution rate as of July 1, 1999 of 4.67% of payroll.

The decrease in the employer contribution rate of 1.37% of payroll is attributable to the following:

Employer contribution rate (July 1, 1998 valuation; 2000 FY)	6.04 %
Decrease due to investment gains	(2.30)
Increase due to liability losses	0.81
Increase due to ad-hoc COLA	0.12
Employer contribution rate (July 1, 1999 valuation; 2001 FY)	4.67 %

Membership

The active membership of the Supplemental System increased from 12,511 as of July 1, 1998 to 12,772 as of July 1, 1999. With respect to inactive members, the number of retired members and their beneficiaries has increased from 2,842 as of July 1, 1999 to 3,051 on July 1, 1999. The number of disabled members receiving benefits has increased from 519 to 539, and the number of former members with vested rights has increased from 492 to 499. In total, the membership of the System, both active and inactive, has increased from 16,364 members as of July 1, 199 to 16,801 members as of July 1, 1999.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Funding Method

The funding method used for this valuation is the "aggregate accrual modification of the entry age normal cost method." Under this method, the employer contribution has three components--the normal cost, the payment toward the unfunded actuarial liability, and the expense rate.

The normal cost is a level percent of pay cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability.

The expense rate is added to cover the System's administrative expenses.

Actuarial Value of Assets

For purposes of determining the County contribution to the plan we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long term nature of the actuarial valuation process.

In determining the actuarial value of assets, we calculate an expected actuarial value based on cash flow for the year and imputed returns at the actuarial assumption. This expected value is compared to the market value and one-third of the difference is added to the preliminary actuarial value to arrive at the final actuarial value.

Changes Since Last Valuation

None.

ACTUARIAL ASSUMPTIONS AND METHODS

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions:

Mortality:

1994 Uninsured Pensioners Mortality Table
Annual Deaths Per 1,000 Members*

Age	Male Deaths	Female Deaths	Age	Male Deaths	Female Deaths
20	1	0	65	16	9
25	1	0	70	26	15
30	1	0	75	40	24
35	1	1	80	67	42
40	1	1	85	105	73
45	2	1	90	164	125
50	3	2	95	251	200
55	5	2	100	341	297
60	9	5	105	441	415

*5% of deaths are assumed to be service-connected.

Termination of Employment: (Prior to Normal Retirement Eligibility)

Annual Terminations per 1,000 Members - Male
Years of Employment with County

Age	0-1	1-2	2-3	3-4	4-5	5 or more
20	150	150	150	147	116	68
25	150	150	150	127	100	59
30	150	150	150	104	81	48
35	150	150	150	88	69	41
40	150	150	150	76	59	35
45	150	150	150	66	52	31
50	150	150	150	59	46	28
55	150	150	150	53	42	24

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

Termination of Employment: (Prior to Normal Retirement Eligibility)
(Continued)

Annual Terminations per 1,000 members - Female
Years of Employment with County

Age	0-1	1-2	2-3	3-4	4-5	5 or more
20	200	200	200	150	161	110
25	200	200	200	150	146	100
30	200	200	200	150	124	85
35	200	200	200	150	104	71
40	200	200	200	150	85	58
45	200	200	200	150	71	49
50	200	200	200	150	60	41
55	200	200	200	150	49	33

It is assumed that members who terminate before age 45 with age plus years of service equal 60 elect to receive a refund of contributions instead of vested benefits.

Disability:

Annual Disabilities per 10,000 Members*

Age	Male	Female
25	6	5
30	6	5
35	6	5
40	10	8
45	28	22
50	52	42
55	80	64
60	80	64

Annual Deaths Per 1,000 Disabled Members

Age	Male	Female
45	43	24
50	48	28
55	53	33
60	58	38
65	64	44
70	73	51
75	89	63
80	107	80

*30% of disabilities are assumed to be service-connected. Of these, 5% are assumed to receive Social Security benefits and 31% are assumed to receive Workers Compensation benefits.

ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

Retirement:

Annual retirements per 1,000 eligible members (male and female) who are eligible for unreduced benefits (age 65 with 5 years of service or age 50 with age plus service equal to at least 80).

Age	First Year	Thereafter	Age	First Year	Thereafter
50	250	N/A			
51	250	150	61	250	150
52	250	150	62	250	150
53	250	150	63	250	150
54	250	150	64	250	150
55	250	150	65	250	400
56	250	150	66	250	250
57	250	150	67	250	250
58	250	150	68	250	250
59	250	150	69	250	250
60	250	150	70	1,000	1,000

Family Composition:

For purposes of valuing the pre-retirement death benefit, an assumption is made that 80% of employees are married at death while active and that the female spouse is 3 years younger than the male spouse.

Sick Leave Credit:

Retirees, deferred vested terminations, and deceased members are assumed to receive an additional 1.5% of service credit due to sick leave.

ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

Economic Assumptions:

Investment Return: 7.50% compound per annum.

Cost-of-Living Increases: 3.00% compound per annum.
(Based on assumed CPI increase of 4%.)

Increase in the Social Security Wage Base: 4.00% compound per annum.

Salary Increases:

Age	Merit/Seniority Increase	Across-the-Board Increase	Total Annual Salary Increase
25	1.4%	4.00	5.4%
30	1.2	4.00	5.2
35	1.0	4.00	5.0
40	0.8	4.00	4.8
45	0.6	4.00	4.6
50	0.4	4.00	4.4
55	0.3	4.00	4.3

Total Payroll Increases (for amortization): 4.00% compound per annum.

Administrative Expenses: 0.30% of payroll.

Changes Since Last Valuation:

None.

ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

	Gain (or Loss) for Year ending June 30,			
Type of Activity	**1996**	**1997**	**1998**	**1999**
Investment Income	$35,237,149	$30,221,622	$1,952,217	$112,549,118
Combined Liability Experience	(9,719,758)	(23,227,386)	3,093,623	(40,178,389
Gain (or Loss) During Year from Financial Experience	$25,517,391	$6,994,236	$5,045,840	$72,370,729
Non-Recurring Items	(58,682,748)	0	(5,014,198)	(5,662,558
Composite Gain (or Loss) During Year	**($33,165,357)**	**$6,994,236**	**$31,642**	**$66,708,171**

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		Removed From Rolls		On Rolls @ Yr. End			
Year Ended June 30	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance	% Increase Allowance	Average Allowance
1994					2,762	30,303,910		10,972
1995	228	5,072,971	202	1,681,392	2,788	33,695,489	11.19%	12,086
1996	253	5,225,766	100	811,484	2,941	38,109,771	13.10%	12,958
1997	302	5,683,056	86	1,210,797	3,157	42,582,030	11.74%	13,488
1998	302	5,971,265	98	1,459,487	3,361	47,093,808	10.60%	14,012
1999	334	7,658,527	105	1,831,976	3,590	52,920,359	12.37%	14,741

SOLVENCY TEST

Aggregate Accrued Liabilities For

Valuation Date	(1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
7/1/94	$133,659,880	$322,841,833	$381,134,375	$796,157,626	100%	100%	89%
7/1/95	135,396,722	354,637,934	440,784,529	889,160,271	100%	100%	91%
7/1/96	146,428,975	410,683,886	585,342,345	1,116,662,361	100%	100%	96%
7/1/97	156,795,828	475,446,920	609,571,024	1,231,382,638	100%	100%	98%
7/1/98	166,884,229	523,288,834	644,295,594	1,324,132,857	100%	100%	98%
7/1/99	177,466,940	591,682,196	697,894,630	1,523,310,967	100%	100%	100%

SCHEDULE OF ADDITIONS BY SOURCE

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income	Total Revenues
1995	$16,254,466	$26,896,714	7.72%	$113,984,974	$157,136,154
1996	16,906,872	28,663,583	7.89%	158,114,510	203,684,965
1997	17,154,504	29,941,315	8.19%	231,573,698	278,669,517
1998	17,996,500	30,955,140	8.12%	238,318,868	287,270,508
1999	19,413,441	24,143,832	6.04%	137,594,536	181,151,809
2000	20,561,280	27,133,595	6.04%	101,648,889	149,343,764

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Expenses
1995	$31,190,874	$3,720,333	$865,473	$35,776,680
1996	36,164,688	4,113,973	585,274	40,863,935
1997	40,734,826	5,021,777	617,310	46,373,913
1998	44,966,835	4,898,119	586,152	50,451,106
1999	50,754,184	4,404,218	621,495	55,779,897
2000	55,452,114	5,123,873	754,136	61,330,123

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1995	$26,913,844	$1,771,305	$1,738,101	$767,623	$31,190,873
1996	31,421,923	1,961,752	1,889,340	891,673	36,164,688
1997	35,608,931	2,045,489	2,097,631	982,775	40,734,826
1998	39,494,011	2,134,493	2,207,808	1,130,523	44,966,835
1999	44,877,010	2,270,671	2,352,826	1,253,677	50,754,184
2000	49,250,201	2,430,337	2,403,449	1,368,127	55,452,114

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1995	2,188	185	315	100	2,788
1996	2,352	164	321	106	2,943
1997	2,529	168	345	115	3,157
1998	2,713	165	354	129	3,361
1999	2,914	176	363	138	3,591
2000	3,075	175	360	147	3,757

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity (including supplement)	Service-Connected Disability	Ordinary Disability	Survivor	Average (basic benefit only)
1995	$1,731	$ 815	$489	$691	$893
1996	1,806	1,004	501	743	942
1997	1,874	1,052	510	759	976
1998	1,938	1,104	528	773	1,006
1999	2,041	1,122	539	804	1,056
2000	2,150	1,173	568	838	1,118